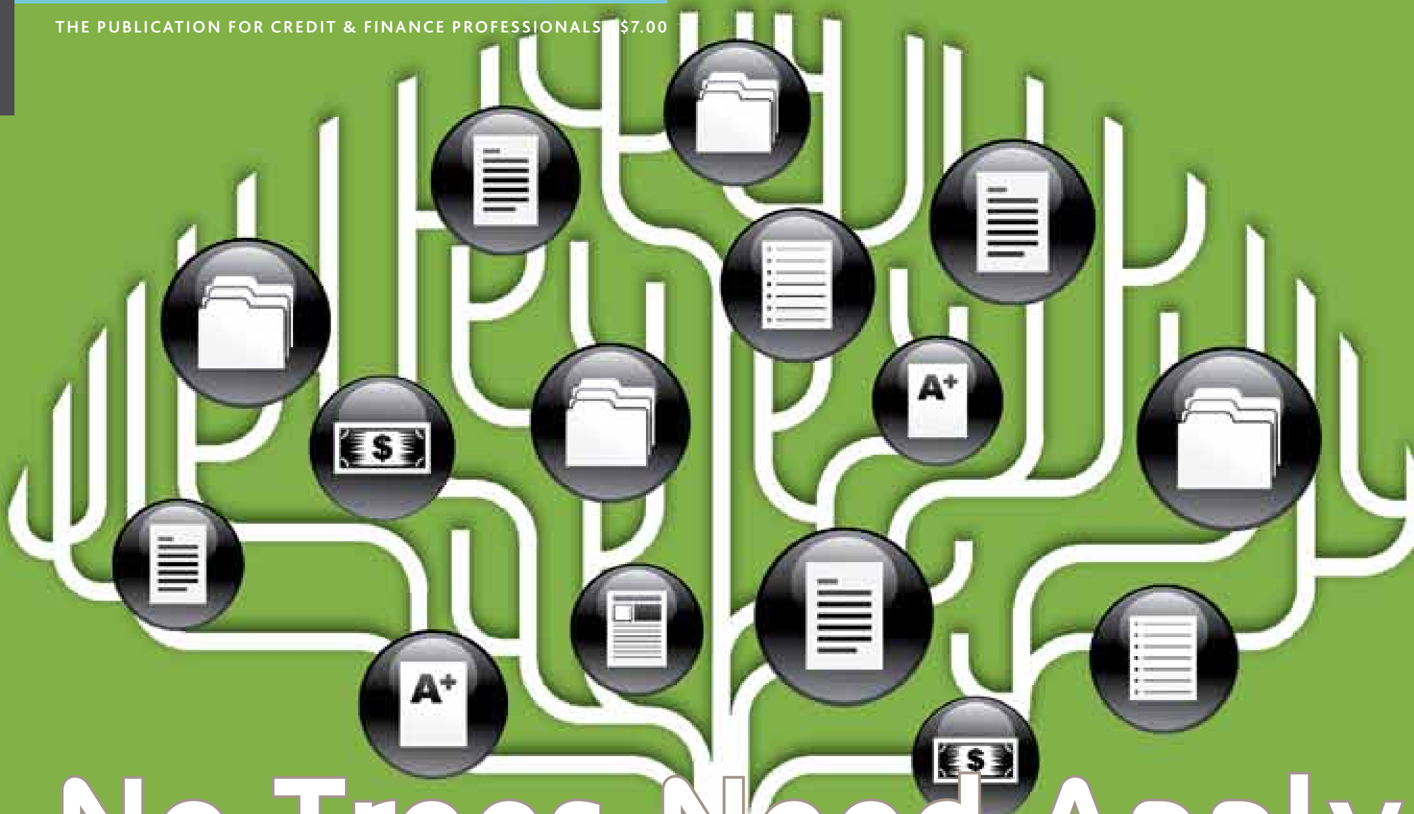
NATIONAL ASSOCIATION OF CREDIT MANAGEMENT

BUSINESS credit®

FEBRUARY 2012

THE PUBLICATION FOR CREDIT & FINANCE PROFESSIONALS | $7.00



No Trees Need Apply

Commercial Credit Dips Its Toe into Paperless Credit Applications

JACOB BARRON, CICP

For consumers, paper is on its way out. Just ask the U.S. Postal Service.

The ever-struggling agency posted a $5.1 billion loss in its 2011 fiscal year, driven primarily by a consumer shift away from paper letters, cards and checks, and toward email and online bill payments. The revenue decline came primarily from a 5.8% drop in First Class Mail, which remains the Postal Service's most profitable product, a decrease that was sharp enough to wipe out gains in package deliveries and Standard Mail.

For businesses, the story is considerably different. During the same fiscal year, business mail, conversely, remained steady, and what's more, as far as bills, invoices and other documents are concerned, companies still remain thoroughly ensconced in the world of paper, and thereby dependent, in many cases, on the Postal Service's product line.

Much of what consumers previously used paper for can now be done on the Internet, in a way that's cheaper and quicker than what a written letter, a stamp and a fleet-footed mailperson can provide. But businesses have slowly lumbered into the paperless world, and only just, still strongly relying on the use of paper checks, forms, contracts, guarantees and other documents. However, as companies seek new business, better customer relations and speedier processing, the appeal of online documents is becoming harder and harder to ignore. Today, many commercial creditors need to be able to receive and process customers at any time throughout the week, which is part of what makes online credit applications an option well worth considering.

"Practically speaking, it gives businesses, both buyers and sellers, a competitive edge since the hours of operation of the credit department are suddenly expanded from normal business hours, i.e., 9 to 5, to 24/7," said Randall Lindley, Esq., partner at Bell Nunnally & Martin LLP, adding that online credit applications align with larger societal shifts toward paperless business. "The fact that we see double digit increases in online retail shopping is an indication that our society is finally catching up with the technology at our fingertips. For decades, the credit approval process has been a slow one, requiring the salesman to meet with the customer, obtain a signature and then deliver, mail or fax the signed credit application to the credit department. The online credit application, on the other hand, allows the customer to apply for credit instantaneously."

Despite Lindley's exhortations, businesses, for their part, appear to be remarkably reluctant about using online credit applications. In NACM's December 2011 monthly survey, when asked "Does your company have a credit application that can be filled out and submitted online?," only 26% of respondents answered "yes," while nearly three times as many said "no."

A number of participants voiced their reservations about online credit applications, but just as many noted that their companies were considering the shift away from paper, and wanted to know more. While every company's experience will be different, when used carefully, online credit applications offer a great deal of benefits and fewer risks than one might expect.

Benefits

In addition to making a company open essentially at all hours of the day, every day, there are a number of other problems that can be solved by switching from paper to online credit applications. Among the 26% of respondents to NACM's survey who indicated that they did use an online credit application, the reasons for implementing them were surprisingly diverse.

"We're a very small, sole shareholder company with the most basic types of assets and expenses with only a couple of revenue sources," said one participant. "Completing online forms is generally quite easy." Simplicity of use was a popular advantage listed by respondents, as was both customer and employee convenience. "Customers can apply for credit at leisure; most of our customers have busy schedules," said another participant. "It appears more and more people are getting computer savvy and would rather complete a credit application online than write the information and mail the application."

Speed was another benefit of online credit applications mentioned by respondents, to both the buyer and the seller's gain. "It works well for us. When [the] customer hits 'submit' it goes directly to [the] credit department administrator for processing," said one participant. "Comments from customers are very positive about this." Beyond simply enabling a company to conduct business faster, an online credit application also presents to customers and any other observers, a level of technical panache that reflects well on the company offering it. Buyers want to do business with companies on the cutting edge, and an online credit application is an easy way to improve the corporate image. "The advantages for our customers are ease of access, availability any time they want to complete it and instantaneous electronic conveyance," said Clint Techmeyer, CCE, corporate credit manager at French Gerleman. "The advantages for our company is [that it] presents us as 'techno-savvy,'" he added, noting that the online application was also customer-friendly, easily documented and immediately accessible for processing once submitted.

"It appears more and more people are getting computer savvy and would rather complete a credit application online than write the information and mail the application."

Online applications can also address more specific, minor nuisances. One small, but important, reason was surprisingly popular. "Legibility," said one respondent, echoing the reason that a surprisingly large number of participants gave for putting their credit application online. "Oftentimes handwritten applications are so sloppy we have to call the potential customer and update the information they gave us." While concerns about handwriting might not be as pressing as the need for speed, or customer convenience, or increased competition, online applications render the point moot, simplifying the entire process by removing one potential, and oft overlooked, pitfall. Ultimately, that's what the use of online documents is all about: making the process quicker and more reliable by reducing the number of moving parts.

Risks

Some may see the value of an online credit application but be daunted by the prospect of actually implementing or using one. And, as with any technological shift, there are a number of risks and common mistakes that companies should keep in mind when moving to an online application process. "There are two common mistakes that I see," said Lindley. "First, some creditors use a different form online than their typical hard copy form. This creates confusion on many levels." This is one instance where it pays to treat the online application just as one would treat a paper one. "Second, some creditors fail to provide adequate instructions on how the personal guaranty must be signed online," Lindley added, emphasizing the importance of being clear on what the customer needs to do for the online application process to work.

One very common error that companies make is to create an extra, unnecessary step in the process by putting their application online without offering customers the ability to *submit* it online. Some respondents to NACM's survey noted that they allowed potential customers to download the application from their company website, but still required that a paper copy by submitted by mail or fax. "Making electronic applications easy to use is essential to making the switch from paper," said Lindley. "For example, websites that provide fill-in forms that allow the user to simply type in the information over the Internet are much simpler and more user friendly than sites that simply provide downloadable forms. Downloadable electronic applications require additional steps and can even cause more hassle than paper applications. This is particularly true in instances where the software used to create the form is not used by applicants."

Having a downloadable credit application but requiring a paper submission is like trying to steal second base while keeping your toe on first. It's a way that companies can straddle the line between paper and electronic business, while enjoying the benefits of neither.

Having a downloadable credit application but requiring a paper submission is like trying to steal second base while keeping your toe on first.

Of course, this isn't exactly something that credit professionals or their companies can always control. Short-term budgetary concerns can always put the brakes on a project, even one that winds up eventually making fiscal sense. Among survey respondents, however, requiring that customers submit a paper copy of an online credit application had more to do with legal questions than it did with monetary ones. Most had applications that could be filled out online, but still required a hard copy signature, due in some instances to the misconception that an online contract isn't as strong in a courtroom as its physical counterpart. "While the online credit application should include the same terms and conditions as the hard copy, there will be some additional clauses, instructions and possibly even disclaimers related to the procedure for submitting and processing the application online," said Lindley. "From a legal point of view, an electronic contract is just as enforceable and carries the same amount of weight as a hard copy written contract."

Other concerns were related to the dangers of the Internet in general. While putting a credit application online may open the company up to more customers, it also presents the application to the Internet's waste. Some of those customers attracted may be unsavory and unwanted. "The overall credit quality of those applications coming in through online channels appears to be lower and the fraud is quite a bit higher as well," said one survey respondent. Stringent security measures must be implemented along with the application in order to both prevent fraud and also to assure customers that the data they're providing in the application is safe. "It really depends on the size of the business and the complexity of the application," said Lindley. "I think most businesses will probably need to engage a web developer to ensure that sufficient security measures are taken to protect the customer's confidential data."

Once the encryption measures are properly implemented however, then the company and its customers can progress toward a more comfortable and convenient online business relationship. "The online process is much quicker and, because of enhanced security, encryption and password protection of sensitive information, our clients no longer need to fear supplying us with that vital information as the threat for identity theft is greatly reduced," said Debbie Coder, chief credit officer of NOCO, Inc.

Several options are available for companies looking to implement these measures, whether it's from a third party or right under the company's nose, in its own IT department, as many survey respondents reported. The point is, however, that once the process of implementation is complete, the company can begin to reap the benefits of speed and convenience that consumers have already enjoyed for years. "Frankly, I have been surprised at how long the transition process is taking. I estimate only about 25% of businesses I represent offer electronic credit applications," said Lindley, accurately echoing the results of NACM's survey. "I do, however, see this changing dramatically over the next few years. Our entire society is moving toward a paperless world. The technology exists, yet we still must change our attitude toward, and comfort level with, going paperless."

"Ultimately, the driving force behind businesses making the shift away from paper applications will be the speed at which the transaction can be completed," he added. "This will result in more sales being completed over a shorter period of time."

Lindley will present the session "The Electronic Credit Application" at this year's Credit Congress in Dallas! To learn more about this year's program, or to register, turn to pages 28-43.

Jacob Barron, CICP, NACM staff writer, can be reached at jakeb@nacm.org.