SAP Financial Supply Chain Management (FSCM) Credit Management

CRF SAP User Group

Presented By:
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- FSCM Credit Management
  - Business Partner
  - Credit Checking
  - Credit Scoring
  - Credit Workflow
  - Enhancements
About HighRadius

• Founded by a team with an extensive background in SAP and financials process automation

• Specialize in turnkey SAP FSCM implementations
  – Collections, Deductions, Credit Management & Biller Direct

• Provide Accelerators to SAP FSCM modules (to fill SAP gaps)

• Ranked among fastest growing technology companies in Houston in 2008, 2009 & 2010
FSCM Modules At-A-Glance
• New Module from SAP as a part of FSCM Suite.
• Latest version is FSCM Credit Management 6.0 Enhancement package 4.
• This is independent module and not an upgrade for SD Credit Management (FD32).
• According to SAP this will eventually replace SD Credit Management.
# FSCM Credit Management vs. FI-AR Credit Management

<table>
<thead>
<tr>
<th>Description</th>
<th>SAP FSCM Credit Management</th>
<th>SAP FI-AR Credit Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Checking.</td>
<td>![Checkmark]</td>
<td>![Checkmark]</td>
</tr>
<tr>
<td>Integrate SAP and Non SAP Systems for a centralized Credit Management.</td>
<td>![Checkmark]</td>
<td>![Checkmark]</td>
</tr>
<tr>
<td>Integrate external credit rating agency information.</td>
<td>![Checkmark]</td>
<td>![Checkmark]</td>
</tr>
<tr>
<td>Credit Score and Limit Calculations.</td>
<td>![Checkmark]</td>
<td>![Checkmark]</td>
</tr>
<tr>
<td>Workflow.</td>
<td>![Checkmark]</td>
<td>![Checkmark]</td>
</tr>
<tr>
<td>Standard BI content and Portal Access for reporting and analysis.</td>
<td>![Checkmark]</td>
<td>![Checkmark]</td>
</tr>
</tbody>
</table>
Business Partner Overview
A Business Partner can have many roles. For example, (Credit Mgmt, Collections Mgmt etc).

Business Partner Master Data is similar to Customer Master Data (FD01).

If Customer Master exists in FD01, an automatic synchronization process is available for BP to be created/updated upon Customer Creation/Change.

Business Partner Credit Master Data (BP / UKM_BP) = Credit Master Data = FD32.
Various Identification Numbers of the customer like DUNS number, Legacy Customer Number, Ticker Symbol etc can be configured and stored here.

Tax Number and other legal identifications of the customer can be stored here. VAT Number, US Tax Identification Number etc.
Business Partner – Credit Profile

Scoring Rule computes Credit Score / Credit Limit

Risk Class is derived from Score above. Can be manually be maintained also.

Check Rule defines Credit Checking Rules. For example Dynamic Credit Check, Oldest open item etc

Integrate External Agency Rating information. For example D&B Cap, D&B Financial Strength, Moody’s etc
Info Categories are available to store additional information on the BP General Data. Information like Credit Insurance, Negative Events etc.
Credit segments are required for calculating the credit limit and enable you to carry out detailed checks at business partner level. Credit Limit / Exposure and Utilization %. Can take you to a detailed view.
Credit Exposure Details by Category. Double click will give details broken down by document.
Business Partner – Credit Segment Data

Additional Information which will affect the credit decision and be added here. For example Collaterals / Securities, Seasonal increase in limit etc.
Payment Behavior key figures are fields that summarize the customers' payment history. Sections that are available on this screen are as below:

Information Available on this Screen:

1. Dunning Data
2. Oldest Open Item Data
3. Last Payment Data
4. Key Figures (DSO, Sales of the last 12 months, Highest Sales in last 12 months etc)
A business partner relationship represents the business connection between two business partners and is characterized by the business partner relationship category.

Some of the Relationship Categories that are important for Credit Management are:

1. Higher-level Credit Management Account of
2. Lower-level Credit Management Account of
3. In Credit Management is managed by
4. Has Contact Person
Credit Checking

Credit Check Rule is a set of conditions that are checked during Order to Cash process to determine if the process can continue.

Credit Check Rules can be assigned to the BP irrespective of the Risk class. For example a High Risk Customer having a “Cash in Advance” Payment Terms can have “Limited Credit Check”
A Credit Check Rule consists of Check Steps each step consists of parameters that must be fulfilled for order processing to complete.
# Credit Checking – Standard Checks

<table>
<thead>
<tr>
<th>Standard Check</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statistical Check of Credit Exposure</td>
<td>Static check includes total exposure of all Open Orders, Delivery, Billing and Open AR. It can also considers “Collaterals” and “Credit Insurance”.</td>
</tr>
<tr>
<td>Dynamic Limit Check with Credit Horizon</td>
<td>Dynamic check includes total exposure of all Open Orders (with in a Horizon period of days), Delivery, Billing and Open AR. It can also considers “Collaterals” and “Credit Insurance”.</td>
</tr>
<tr>
<td>Check for Maximum Document Value</td>
<td>Maximum Document Value, can be defined for each Segment.</td>
</tr>
<tr>
<td>Check for Maximum Dunning Level</td>
<td>Maximum Dunning Level</td>
</tr>
<tr>
<td>Check for Age of Oldest Open Item</td>
<td>Age of the Oldest Open Item</td>
</tr>
<tr>
<td>Check of Payment Behavior Index</td>
<td>DSO</td>
</tr>
</tbody>
</table>
• SAP FSCM Credit Checking can be enabled to integrate with both SAP and non-SAP instances
• New Credit Check steps can be customized by adding custom rules and also make them configurable.
Credit Scoring
Scoring Rule computes Credit Score / Credit Limit
Credit Scoring – Rule Definition

Change View "Rule for Scoring and Credit Limit Calculation": Overview

Dialog Structure
- Rule for Scoring and Credit Limit Calculation
  - Score
  - Credit Limit
  - Rating Procedure Selection

Rule for Scoring and Credit Limit Calculation
- Rules
- Name
- Def...
- B2B - EXIST: Rule for Existing Business Customers
- B2B - NEW: Rule for New Business Customers
- B2C - EXIST: Rule for Existing Private Customers

Score
- Rule
- Name of Rule
- Score Formula
- Formula Name
- Validity
- T
- Score for Business Customers

Credit Limit
- Credit Limit
- Formula Name
- Valid
- T
- Maximum
- 0000: LIMIT_B2B
- 0001: LIMIT_B2B
- 0002: LIMIT_B2B
- 0003: LIMIT_B2B
- 1000: LIMIT_B2B
- 2000: LIMIT_B2B
- 3000: LIMIT_B2B
- 3020: LIMIT_B2B
Credit Score – Scoring Formula Example

1. If Customer is in Negative List Set Score = 0 and exit
2. If Customer is in Positive List set Score = 100 and exit
3. If Customer has a Foreclosure, Bankruptcy or any other negative characteristics Set Score = 0 and exit
4. Normalize external rating (0 – 20) and add it to final score (0 – 10)
5. Normalize Legal form (0 – 10) and add it to final score
6. Normalize Industry (0 – 5) and add it to final score
7. Normalize country (0 – 5) and add it to final score
8. Normalize age of company (0 – 20) add it to final score
9. Normalize Customer Profitability (0 – 30) and add it to final score
10. Normalize Equity Capital (0 – 10) add it to final score
Score Formula: Define Steps, each step has a condition and points that can be assigned. All these points can add up to a credit score.
1. If Credit Score = 0 Set the Credit limit = 0
2. If Credit Score > 0 and <= 40 set the credit limit =
   (MAX_SALES in last 12 months)*0.5
3. If Credit Score >= 40 and <= 60 set the credit limit =
   (MAX_SALES in last 12 months)*1.0
4. If Credit Score >= 60 and <= 90 set the credit limit =
   (MAX_SALES in last 12 months)*1.5
5. If Credit Score > 90 set the credit limit = (MAX_SALES
   in last 12 months)*2.0
Credit Scoring – Limit Formula

Score Formula: Define Steps, each step has a condition and Limit subsequently credit limit can be calculated and assigned.
Credit Workflow
These events can trigger workflow’s, calculate the credit score / credit limit etc. For example, if the External agency has downgraded the Customer and the information has updated in the BP. In this event we can configure the system to recalculate Credit Score and start a workflow to have the Credit Analyst review the customer’s account.
Credit Workflow – Credit Case

Credit Case and Credit case attributes.
Credit Workflow – Credit Case

Notes can be added for each Credit Case.
Credit Workflow – Credit Case

Approval Steps for the Credit Case
Enhancement
Enhancements Example
### Key Financial Information

- **Audited**: Yes
- **Fiscal Year**: 2010
- **Fiscal Quarter**: Q2
- **Currency**: USD
- **Entity Type**: Closed Corporation
- **Total Revenue**: $7,348,215,887.00
- **Gross Profit**: $2,083,479,331.00
- **Operating Profit**: $1,284,587,089,123.00
- **EBIT**: $932,479.00
- **Net Profit**: $92,345,987,359.00
- **Total Liabilities**: $939,247,949,237.00
- **Current Assets**: $203,749,724,690.00
- **Current Liabilities**: $213,749,724,690.00
- **Net Tangible Assets**: $289,234,059,423.00
- **Working Capital**: $824,909,237,598.00
- **Shares Outstanding**: 92,345,987,359.00
- **Gross Margin**: 48.5%
- **Operating Margin**: 48.5%
- **Net Margin**: 0.00%
- **Current Ratio**: 0.00
- **Quick Ratio**: 0.80
- **D/E Ratio**: 0.80

### Income Statement

<table>
<thead>
<tr>
<th>Details</th>
<th>FY'10</th>
<th>FY'10</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Revenue</strong></td>
<td>500</td>
<td>346</td>
</tr>
<tr>
<td><strong>Cost Of Sales</strong></td>
<td>-</td>
<td>5,484,374</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>-</td>
<td>547,478</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td>-</td>
<td>560,776,787,08</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td>-</td>
<td>8,760,788,789</td>
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<tr>
<td><strong>Operating Profit</strong></td>
<td>-</td>
<td>7,892</td>
</tr>
<tr>
<td><strong>Income from Continuing Operations</strong></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Depreciation</strong></td>
<td>8.00</td>
<td>54573.00</td>
</tr>
<tr>
<td><strong>Bad Debt Depreciation</strong></td>
<td>8.00</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Profit Before Financial Items</strong></td>
<td>8.00</td>
<td>8.00</td>
</tr>
<tr>
<td><strong>Interest Income</strong></td>
<td>8.00</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Interest Expenses</strong></td>
<td>8.00</td>
<td>8.00</td>
</tr>
<tr>
<td><strong>Other Financial Expenses</strong></td>
<td>8.00</td>
<td>8.00</td>
</tr>
</tbody>
</table>
### HR Credit Decision Accelerator | Crocodile Enterprise (CMS0000001)

#### Summary

<table>
<thead>
<tr>
<th>Category/Name</th>
<th>Created On</th>
<th>Created By</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Statement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Venkat</td>
<td>01/12/2011</td>
<td>VENKAT</td>
</tr>
<tr>
<td>Balance Sheet</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Venkat Balance sheet</td>
<td>01/12/2011</td>
<td>VENKAT</td>
</tr>
<tr>
<td>Cashflow Statement</td>
<td></td>
<td></td>
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<tr>
<td>Attachment testing</td>
<td>01/12/2011</td>
<td>VENKAT</td>
</tr>
<tr>
<td>Rating Agency</td>
<td></td>
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</tr>
<tr>
<td>Insurance Providers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collaterals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Invoice</td>
<td>01/26/2011</td>
<td>CLAESH</td>
</tr>
</tbody>
</table>
Questions?

http://www.highradius.com