



Establishing a Landmark Credit Group in Europe

by Scott Tillesen and John Broderick

On a Monday morning more than two years ago, Tech Data Corporation's Paris-based credit staff received a blunt communication from their insurance carrier: Credit insurance coverage would no longer be available for about 1,200 customers. For a company that largely relied on such insurance for related decision-making, the news came as quite a shock.

They weren't alone. Similar announcements spread out to other distribution leaders across the industry. This case study shows how the [Global Technology Distribution Council](#) (GTDC) contributed to a new solution with its members — the world's leading tech distributors, driving more than \$100 billion in product and service revenue today.

The Background

When companies engage in an "owned-risk" approach to credit management, five critical elements must be addressed:

- Skilled staff
- Effective/appropriate systems
- Written policies
- Customer data
- External information

While a certain amount of broad-based credit reporting was available to European hardware and software distributors a couple of years ago, they lacked the advantages of an industry "credit trade group."

Without a credit trade group, credit references were occasionally obtained on a direct-contact basis between companies. However, responses were not always complete — and cooperation was not always enthusiastic. When the credit insurance issue worsened in Europe, finding a cooperative industry-wide solution became imperative.

Tim Curran, CEO of the GTDC, remembers the situation well:

"Our industry was in a crisis. Inventory and accounts receivable management are core activities to successfully running a distribution business. The sudden change in credit insurance availability and affordability had to be addressed, and new tools were direly needed."

The GTDC initiated corresponding research on behalf of its membership. That effort, however, could not identify a single credit service company that administered a credit group in the technology industry or any other industry in Europe. The task of establishing a credit group in Europe was daunting on numerous levels.

Addressing the Crisis

After considering alternative ways to tackle the project, the GTDC partnered with [Smyyth Credit Services](#) in the U.S., a firm with more than 100 years of related experience. Requirements included:

1. A thorough examination of each of the laws of each European country to determine the permissibility of credit information exchange
2. The deployment of a user-friendly cloud-based system to access the information
3. GTDC member approval

Legal counsel was engaged to examine individual country laws. No evidence existed for a project of this scope, according to Smyyth Credit Services President John Broderick. "The legal protection supporting the exchange of information in the United States is very different than in Europe. In some locations, laws were very clear. In others, the laws were vague or barely addressing the subject. This was a ground-breaking effort."

Upon completing the legal review, results were shared with GTDC leaders and members. The group concluded that the

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"exchange of historical factual information between creditors for the purpose of credit analysis" would be allowable in almost all European countries.

With the legal questions addressed, Smyyth then focused on building an information exchange system for Europe based on proven systems already deployed in the U.S. Sample data was entered into the new system and shared with GTDC member companies. After making refinements, the system was declared "business ready" — and rolled out with a policy requiring monthly data submissions.

Distinct Differences

The European model is inherently different from traditional U.S. credit groups. Information is displayed anonymously without attribution to a specific company, and the intra-group email functionality, which is a core feature of the U.S. system, has been disabled due to diverse privacy considerations across Europe. A currency conversion feature was also added to support the region.

Critical data was amassed in a relatively short time: Approximately 220,000 accounts coupled with predictive payment metrics, plus 13 months of trend reporting for payment history, including average "high credit" and "days slow" trends.

Payment data and vital metrics are now available for import into scoring systems. The net result of the overall effort: Comprehensive historical data and unprecedented tools for supporting tracking and monitoring processes in Europe.

From an economic standpoint, the overall effort produced deep insight into the respective GTDC member account base at a fraction of the cost of traditional credit bureau reports.

The **European Technology Distributors Credit Group** has now been in place for about two years. The availability and affordability of credit insurance has improved due to their efforts — and participants say the new approach has greatly strengthened decision making.

"Readily-available industry credit information is essential to our overall credit management process," remarked Rodolphe Muller, senior European credit manager for Tech Data. "The creation of this credit group has helped us in various ways, especially by advancing the timeliness, quality, and affordability of credit decision-making."

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