



SAP S/4HANA FSCM Credit Management vs SAP ECC Credit Management: A Comprehensive Comparison

EXECUTIVE SUMMARY

This whitepaper presents a comparative analysis of solution sets, benefits and functionalities of SAP S/4HANA FSCM credit management vis-à-vis SAP ECC credit management. With the introduction of new-generation SAP S/4HANA, FSCM credit management replaces ECC credit management. Hence, there is an increasing need to understand FSCM credit management in order to make informed decisions.

SAP S/4HANA Financial Supply Chain Management (FSCM) consists of different components which can be leveraged either independently or in a combination of components to optimize the financial supply chain. SAP S/4HANA FSCM components include:

- Credit Management
- Biller Direct
- Dispute Management
- Collections Management

S/4HANA FSCM Credit Management

Credit Management provides various functions such as integrating external credit information, scoring and categorizing new and existing customers on the basis of credit to enable faster decision making. It allows organizations to monitor and control the credit risk from a central system and is particularly suitable for the handling of credit management processes in extremely distributed system landscapes.

S/4HANA FSCM Biller Direct

Biller Direct enables an organization to set up electronic payments, electronic billing, and integrate customer and financial services using the internet. It supports the entire communication process from presenting bills to clarifying, reconciling accounts and billing. It allows organizations to work closely with customers and partners for an enhanced and hassle-free user experience.

S/4HANA FSCM Dispute Management

Dispute management provides functions to enable the processing of discrepancies between organizations and customers regarding the customer's financial obligations (Dispute cases). It also enhances logistical process chains engaged in billing and payments which can help minimize discrepancies.

S/4HANA FSCM Collections Management

Collections management supports the evaluation, identification, cost component splitting and prioritization of accounts from a risk management and customer relations perspective. It also supports the proactive processing of receivables, process automation and automation of large volumes of open items.

INTRODUCTION

Credit Management

- Credit management is a well-defined process of controlling and collecting payments from customers.
- This is a function within an organization to streamline credit policies that could improve revenues significantly and minimize financial risks.
- Credit controllers in an organization have to manage the credit department by making decisions regarding credit limits, acceptable levels of risk and terms of payment to customers.

Credit Controllers

- Credit controllers are responsible for controlling bad debt exposure and expenses as well as maintaining strong cash flows with efficient collections.
- The efficiency of cash flows can be measured using various methods. Days Sales Outstanding (DSO) is the most common method used. The organization is responsible for ensuring an adequate allowance for Doubtful Accounts.
- Credit controllers constantly monitor the Accounts Receivable portfolio for trends and warning signs by going through the scores and ratings provided by internal and external sources.
- Credit controllers maintain a "Black list" of customers on the basis of credit limits, credit terms, and credit-rating criteria that are well defined within the corporate credit policy.
- Last but not the least, credit controllers play a major role in initiating legal or other recovery actions against customers who are delinquent.

Challenges to Organizations

- Organizations are increasingly burdened with bankruptcies of their customers, delayed payments, non-optimized credit policies in distributed systems.
- New customers and geographies pose a high challenge with lack of credit history.
- Credit information resides in the silos of different interest groups in an organization making it difficult to arrive at effective credit decisions.

Solution

- SAP S/4HANA FSCM credit management provides functionalities such as internal scoring, categorizing and integrating external credit score ratings (for existing as well as new customers) which enable organizations to overcome the challenges.



FEATURES OF S/4HANA FSCM CREDIT MANAGEMENT

- Organizations with widely distributed system landscapes can monitor and control customer credit risk from a central system
- Scoring rules engine allows creation of customer scores using own rules. These scores can also be combined with external credit agencies
- The scores can be used to calculate and assign customer specific credit limits either automatically or manually
- Simplified interface is provided for external credit agencies
- Predefined reports are available for strategic credit analysis with credit controller specific dash boards
- Standard workflow is provided for credit limit request by sales Credit approval & reject options for controllers are available
- It includes credit cases and documented credit decisions for accounts. The documents can be created and approved. The cases can be used for legal or dispute actions
- All customers are created as Business Partner (BP) in FSCM credit management. Organizations can maintain details for scoring credit rules, credit limits, documenting collaterals, exceptions and credit defaults

FUNCTIONAL CAPABILITIES: COMPARISON

Functionality	ECC Credit management	FSCM Credit management
Master Data	SAP Customer	SAP Business Partner
Finance Data	FI-AR	FI-AR, FI-CA, others
Credit Exposure Monitoring	Only at the level of credit control area	At segment and main segment level (Overall credit limit)
	Specific simple system-landscape (1xFI, 1xSD)	Distributed system-landscape (multiple FI, SD and CRM systems)
	SAP system only	SAP and non-SAP
Scoring & rating for customer	Not available	Credit Rules Engine
Credit information – External credit agencies	Only through partner products	Any XML based credit information service
Credit limit rules	Not available	Credit Rules Engine
Credit case	Not available	Credit limit requests
Documented credit decisions	Not available	Documented credit decisions
Work flow	Only in SD	Any credit event, documented credit decisions, credit limit requests
Analysis	Customer fact sheet	Fiori Smart Business / HANA Live; OLAP/OLTP (incl. BW Content)
Non SAP connectivity	Not available	XI Server
Relationships	Not available	Hierarchy relationship

The comparison table above establishes the fact that ECC credit management is functionally limited. In contrast, S/4HANA FSCM credit management provides options to maintain credit limit, use the limit to block sales orders and release the sales orders. S/4HANA FSCM credit management is fully loaded with solution sets, features, functionalities and benefits which all progressive organizations should harness.

KEY IMPROVEMENTS FOR BUSINESS

SAP S/4HANA FSCM credit management is rich in functions that enable organizations to optimize financial supply chain in order to minimize the process cost, manage and control credit management process decisions and increase overall customer satisfaction.

Master Data:

Introduction to BP:

General Business Partner Data (Person/Organization/Group) - Entry of master data based on SAP Business Partner is possible.

Flexible Scoring:

A scorecard enables the system to calculate a customer's score. Scoring has a validity period, a history, and a change display.

Improved Risk Class:

Risk class can be derived automatically from the scoring value or can be set manually. The risk class has a history and a change display.

Credit Segment based credit checks:

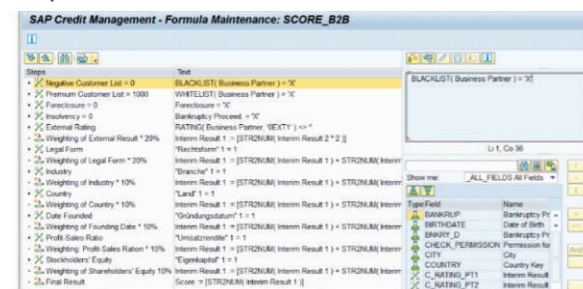
Monitoring a customer in different credit segments with proprietary rules is possible. Credit segments can be used to portray business areas, organizations and branches. The main credit segment aggregates credit exposure in one unit.

Improved Credit Limit:

A customer can receive a separate credit limit for each credit segment. Additional functions such as validity period, history, and change display are available.

Introduction to Credit Rules Engine:

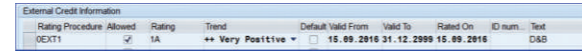
Automatic calculation of scoring/risk class/limit using customer-specific rules is possible. The rules can be customized as required and are based on either business



partner master data or process analysis from SAP BI. Additional parameters can be added via BADI implementations.

Optimized Automatic Calculation of Scoring/Credit Limit:

The users can follow automatic calculation for scoring of the limit by means of an explanatory component.



Introduction to External Ratings Management:

Information from external credit information sources can be stored in the master data. This data can be maintained manually or imported via an interface. All ratings have a history and a validity period.

Improved Note Field:

A note can be entered for the customer master data. The system stores information such as time of entry and name of the person responsible for the entry.

BP Specific Credit Insurance:

Entry and consideration of credit insurance in the credit limit check is possible. In the system, you can enter the type, amount, validity period, note, and request date of the credit insurance.

BP Specific Collateral:

Entry and consideration of collateral in the credit limit check is possible. In the system, you can enter the type, amount, validity period, note, and resubmission date of the collateral.

BP Specific Negative Credit Events:

You can enter negative credit events for the customer. You can specify a deletion date that determines when a negative credit event is to be deleted from the customer master data

BP Specific Customer Blocks with Reason Code:

Entry of a block indicator with block reason is possible. The block indicator can be considered in an automatic credit limit check.

BP Specific Indicator - Special Attention:

It indicates customers that have to be monitored closely in credit management. The indicator is available as a selection criterion in several reports.

BP Specific Credit Customer Group:

The field can be used to classify customers further.

BP Specific Payment Behavior Index:

Information about the payment behavior of a customer (for example, from Accounts Receivable) can be loaded into the system via an XML interface.

Introduction to Business Partner Relationship:

The business partner relationships function is used to portray parent-subsidary relationships between the companies. This information is evaluated during the credit limit check to determine the total liability and customer credit limit for a group.

BP Specific Credit Exposure:

In addition to the credit limit, data about the total exposure of the customer is displayed. The user can navigate to either the total item display or the line item display of a liability.

Credit Rules Engine

Optimized Mass Update:

A performance-optimized mass function for recalculating the credit limit/scoring/risk class, with monitoring function for the validity period. This report can be used to carry out simulations with new rating methods. The result can then be stored as an extract for viewing anytime.

Introduction to Calculation Rules - Formula Editor:

It is an application for Maintaining Calculation Rules for Scoring and Credit Limit



Introduction to Use of Master Data Fields of SAP Business Partner in the Formula Editor:

Attributes like age, city, country of origin, gender, establishment date, legal form, industry code, and fiscal year data can be used to arrive at a score.

FSCM Credit Management allows optimized credit checks for

- Dynamic/static credit limit
- Collateral, credit insurance
- Maximum dunning level
- Oldest open item
- Order block set centrally by credit management
- Key figures for the customer's payment behavior (e.g. DSO)

Workflow - Processes

Native Workflow:

Native workflow provides a predefined workflow to

- Approve credit limit changes
- Notify the changes to customer credit profile (for example, scoring/risk class was changed)

Define Approval Process for Release	Credit Segment	Risk Class	Approver	Threshold Value	Currency
ZABC	D	0	Credit Analyst	0.00	USD
ZABC	D	1	Person Responsible	100.000.00	USD
ZABC	D	2	One Additional Approv.	1.000.000.00	USD
ZABC	E	0	Credit Analyst	0.00	USD
ZABC	E	1	Person Responsible	100.000.00	USD
ZABC	E	2	One Additional Approv.	1.000.000.00	USD

Introduction to Credit Case:

Credit case is an application for structured processing of credit limit changes. The credit case provides options to:

- Enter a virtual record with all the information required for a decision for a credit limit request
- Assign a record to different users in the system
- Set the status of the credit limit request or enter notes for the request

Introduction to Credit Eventing:

Automation of complex process in credit management is possible by linking events and follow-on processes to process chains.

Credit Information Provider

Optimized XML Interface for Requesting External Credit Information:

Different XML-based credit information providers can be interfaced in real time. DnB, Credit reform and info score are some of the credit information providers.

Optimized Storage of Credit Information in the Document Storage:

The original credit information document is stored in the master record of the customer and the user can access it for further analyses.

Optimized External Ratings for Credit Rules Engine:

The original credit information document is stored in the master record of the customer which can be accessed anytime for further analyses.

CONCLUSION

With SAP S/4HANA FSCM Credit Management, organizations can:

- Leverage controlling of credit risk via real-time credit allocation and constant monitoring
- Perform online credit rating check for real time credit decisions and add value to the organization in terms of increased revenues and risk-free credit loans
- Automate the credit application process to significantly reduce transaction costs
- Vastly improve customer relationships by concentrating service on profitable customers
- Create a well-defined and risk free process for credit limit applications and management by linking dispute information to credit decision process

ABOUT THE AUTHOR

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