Key Areas to Analyze When Creating a Baseline Customer Profile

Like in medicine, it's easier to diagnose a patient's problem when the doctor has a baseline profile of their health before things started going south. That way the doctor can more easily pinpoint the particular issue, and treat it.

In this simile, credit professionals are the doctors. When a company begins selling to a new customer, credit professionals should create a profile of the customer that includes enough information about their current financial health and the nature of their business that allows them to accurately spot problems and react appropriately. Here are four areas that credit professionals should focus on when creating or updating a customer profile:

1. **Supply Chain**: Companies need to understand their customers' operations at the start, from how they get what they need to function, through to how they get their product to their customers. Calculating each customer's cash conversion cycle, which measures how long it takes for the customer to convert inventory and receivables into cash, provides a good baseline for their efficiency. Companies should also know and monitor the health of their customers' largest suppliers as well.

2. **Operations:** This involves understanding a customer's product, production and employees. Vendors need to understand the level of demand there is for their customer's product, both currently and in the future. From a production standpoint, knowing whether or not a customer operates at capacity could create red flags down the road if production spikes or plummets. Regarding employees, sellers need to be close to the most influential people in the company. This doesn't show up on the statement of cash flows, so phone calls, visits and lunches beforehand might be necessary.

3. **Financials:** Getting a basic understanding of a new customer's finances might seem like a no-brainer, but there are other aspects that companies should investigate, like how reliant the customer is on bank financing and whether or not their industry is given to unique, unorthodox financing arrangements. The idea is to understand what's normal so that a vendor doesn't overreact if a customer has financials that are normal for their industry, but seemingly bizarre to the credit professional.

4. **Regulatory/Legal:** Certain sectors like energy, food, health care and financial services are perennial targets for federal regulations. Knowing the regulatory and legal environment in which a customer is operating, and knowing how potential changes could affect their bottom line, could be critical down the road. All economies are local too, so legal concerns at the municipal and state level should also figure into the customer's profile.