Case Study

Lennox transforms credit and collections with help of dynamic Equifax solution

Lennox International
A leading manufacturer of climate control solutions for heating, air, and refrigeration in the U.S., Europe, Asia, and Latin America.

CHALLENGE

To increase profitability while better supporting its diverse customer base of HVAC dealers and distributors, many of whom were struggling after the collapse of the housing market.

SOLUTION

Lennox transformed its process to automate decision-making and build a comprehensive view of customers through Equifax BusinessConnect™, a cloud-based application that streamlined and connected its credit, collections, and sales teams on a single platform.

RESULT

In just over two years, Lennox optimized its internal resources to achieve across-the-board, double-digit improvements in critical performance metrics, including gross margin dollars, bad debt, approval rates, and write-offs. Customer relationships improved by creating a faster, smarter origination process and proactively working with high-risk customers to drastically minimize payment delinquency.

As a top global provider of HVAC and refrigeration systems, Lennox International serves dealers and distributors of all sizes, ranging from mom-and-pop shops to large commercial enterprises. It prides itself on being customer-centric, with a credit team that strives to say "yes." However, in recent years its customers were hit hard by fallout from the 2007 recession. As its customers slipped into the red, credit approvals were declining, while payment delinquencies and collections were soaring.

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To reverse this trend and point Lennox in a more profitable direction, it needed a more creative, consistent, and connected process for reviewing and approving customers and recovering debt. That's when Lennox's financial management team began its journey to modernize credit and collections, which swiftly turned around its customer approvals and improved account receivables performance, customer dispute resolution cycle times, customer satisfaction levels, and profitability.

The challenge: Help struggling customers while maintaining an acceptable level of risk

In the post-recession economy, Lennox customers were struggling financially and, as a result, DSO (Days Sales Outstanding) increased. Furthermore, Lennox was operating under fairly antiquated credit processes. Its credit organization had limited access to customer data and commercial credit information and relied heavily on trade references, which slowed the typical credit review process to approximately 12 days.

"The credit decisioning process was rife with subjectivity, with credit analysts often making decisions based on a gut feeling. Apart from leaving no audit trail, this led to inconsistent decision-making with high decline rates," said Randy Dacus, Director of Customer Financial Services for Lennox.

As if its credit analysts didn't have enough work, they were also performing collections activities without a standardized account prioritization process and managing everything with a static spreadsheet. The process was reactive, inefficient, and ineffective, resulting in missed key opportunities to recover substantial debt and build stronger customer relationships.

What's more, Lennox lacked the technology to pull together a complete view of customers, as credit analysts and sales teams operated independently with no ability to share valuable customer information and account insights across the organization.

With credit losses increasing, internal resources stretched thin, and customer relationships in jeopardy, Lennox had to reengineer its strategy for handling customer credit, collections, and risk management in order to deliver a win-win for the customer and the company, along with its shareholders. "The idea that positive collection results and sales growth are mutually exclusive concepts is no longer applicable in this day and age," said Dacus.

The solution: Revamped processes and predictive scoring automated through innovative cloud technology

Transforming the company's credit and collections protocol was a multistep process that involved substantial research, peer discussions, and an objective evaluation of its credit function. Following a detailed portfolio analysis and risk assessment, along with a modification of its organizational structure to bifurcate credit risk from collections activities, Lennox collaborated with Equifax to develop a dynamic, world-class credit management solution that is tailored to fit its unique needs.

"We started thinking…what if we could approve 90% of new business applicants in a few hours? Then we could start the sales process earlier," said Dacus. So the Lennox team set out to make it happen.

Lennox worked with Equifax to develop sophisticated, customized scoring models for new and existing customers. The models are highly predictive and account for macroeconomic factors while leveraging logistical regression analysis. In a flash, credit applications for prospective customers are efficiently and consistently decisioned, and an appropriate credit limit is automatically assigned. Once onboarded, customers are segmented through a collections prioritization model that evaluates payment performance, revenue, and overall risk. Based on the customer segmentation score, Lennox deploys customized accounts receivables strategies for each account.

To connect functional teams and facilitate more consistent and efficient onboarding, Lennox leveraged BusinessConnect™ for easy, cross-organization collaboration "in the cloud." BusinessConnect™, a specialized risk management cloud application from Equifax, was deployed directly through the company's existing CRM, Salesforce.com. Sales and service teams already knew how to the use the system, and now credit and collections could also access and share real-time customer information. This solution immediately aligned internal teams, improved customer visibility, and enabled relevant internal groups to participate in the origination workflow, further streamlining and expediting the approval process.

Also through BusinessConnect™, Lennox is able to

- Automatically deploy its custom scoring models and credit limit algorithms for efficient decision-making
- Integrate corporate linkage information from the Equifax Business Credit Industry Report™, allowing teams to view and manage portfolio risk exposure at the legal entity level
- Leverage public records, credit, and business owner data from Equifax and other third-party providers from a single application
- Access internal receivables data through a direct SAP integration
- Capture account activity for improved visibility and reporting

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The results: Improvements in DSO, gross margin, and write-offs

Lennox maintains its industry leadership position through continuous process improvement and an acute focus on adding value for customers. With this philosophy in mind, Lennox senior management had the foresight and fortitude to radically modify highly customer-facing processes. By infusing its credit and collections operations with industry leading data, technology, and best practices, Lennox simplified and accelerated the decision-making process and made its customers happier, its internal workflows more effective, and its bottom line more profitable.

Now, Lennox can say "yes" to customers in hours versus weeks and approve more customers systematically while helping to improve DSO and reduce bad debt. The company has built a premium customer experience that stands out from competitors and that is accretive to its ROIC and its customers' market growth initiatives.

Other specific benefits from the improved processes include

- Gross margin dollars increased by more than $600,000 in one year for two of its business segments—and of those gross margin dollars gained, the corresponding bad debt of those new customers was negligible, meaning the company didn't take on more bad debt by taking on more customers
- Bad debt dropped from 37 basis points of sales to well under 10 basis points—while significantly growing revenue, profits, and market share
- Approximately 80% of credit requests are decisioned within minutes due to automated approvals using proprietary credit limit scoring; the remainder is manually reviewed, lifting credit approval rates to roughly 90%
- Approval time decreased from approximately 12 days to about four hours
- Dramatically improved key performance metrics in just a few years:
  - Delinquent Days Sales Outstanding (DDSO) improved by 85%
  - 31+ days past due accounts improved by 62%
  - Percent of current AR improved by 20%
  - Bad debt dollars reduced by 90%
  - Write-offs, as a percentage of sales, improved 75%
- Collections Effectiveness Index (CEI), which measures how effectively the company collects money, has increased dramatically

As for customer satisfaction, "That's evident in the number of Christmas cards I get every year from customers," says Dacus. "Lennox customers appreciate how the company finds creative ways of saying yes and going out of its way to help them through financial difficulty in good times and bad."

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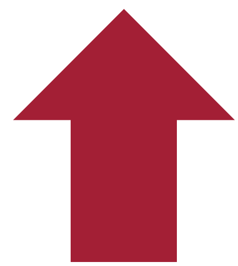

$600,000

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