SMEtoolbox

An ADFIAP publication featuring ideas, news & tips for small & medium enterprise financing

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What is Credit Rating?

A credit rating is an independent, third-party opinion that typically assesses a borrower's ability to service its debt as well as the likelihood and severity of a potential default. Ratings range from AAA for the highest quality to D (for default). BBB ratings and above are investment-grade category, while BB ratings and below signify riskier, but high yield investments.

A company seeking a rating can expect to pay around USD45,000 for an initial assessment from one agency, but there are a number of additional fees based on the size and type of instrument rated. On top of the basic fee, most agencies add charges of three basis points based on the principal amount of a company's debt issue, with the total fee amounting to a maximum of about USD90,000. In addition, the agencies impose annual rating surveillance fees of approximately USD18,000 to USD45,000.

The entire ratings process can take from two weeks to three months or more, depending on the complexity of the information and the resources available to assemble it. "While the bulk of the information required by the agencies already exists in a company's organization," says London-based Edward Bace, co-head at Lehman Brothers' credit advisory and ratings group, "often the biggest task facing the finance director is assembling it in a coherent fashion.

Generating Revenues from Direct Mail

Internet marketing may be trendy, but direct mail marketing can still generate revenues if you know how to do it right. Follow these guidelines:

- **Don't give too much away on the outside.** Your envelope is the first thing your customer sees, therefore, entice them with a little information to let them look inside. Let your envelope hint at your offer—"Open this for money-saving ideas"—instead of laying it out explicitly.
- **Be as personal as possible.** Handwritten envelopes are more expensive, but may be worth the cost if they prompt more people to keep and open them.
- **Make response easy.** Be sure to ask directly for a response—"place your order today." Then make responding as effortless as possible. Include a postage-paid envelope and order form, your Website and e-mail addresses, and any other options that your customer can choose from for his or her convenience.
- **Test—and keep testing**. Sometimes simple strategies—a one page letter instead of a longer one—can make a dramatic difference in your response.

Source: Sales Management Report

Build Better Business Relationships

Networking is vital to building strong business relationships. Below are some rules for strengthening your network:

- **Make time to talk.** When someone calls you, spend at least a few minutes talking no matter how busy you are.
- **Provide positive reinforcement.** The purpose of a network is to generate business, but that won't happen all the time. If a meeting or presentation isn't in the cards, remember to say something positive and encouraging about your relationship.
- **Connect people to each other.** Referrals show your genuine interest in helping people. Just be sure their needs and interests really do mesh, so you don't waste their time.
- **Confirm information.** When someone calls you, check to be sure the information you have on the individual is still current.
- **Schedule a follow-up call.** Before you hang up, make arrangements to get in touch again.

Source: Ragan.com

SMEToolbox is a quarterly publication of the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP). It features ideas, news, and tips for small and medium enterprises (SMEs).

What is Credit Scoring?

Credit scoring is a technique used to assess the credit risk of SME loans. With it, necessary data on loan applicants are passed through an analytical model embedded in software. The model delivers a number—the score—that indicates the applicant's level of credit risk. Effective use of this technique can sharply reduce the number of applications that need manual review, often by up to 80 percent. SME credit scoring enables banks to: (i) reduce their cost of making loans; (ii) make more loans to SMEs; (iii) control risk more effectively; (iv) remove human bias from the lending decision; and (v) focus on assessing questionable loans.

Developing a credit scoring model involves statistical analysis of large amounts of data. Two types of data on a large sample of accounts need to be collected and analyzed: **Predictive data** is data that is available at the time of the decision, such as the time at which credit was granted to an account. **Performance data** is data that is available in the period after the lending decision was made, reflecting the payment history of the accounts in the sample. Statistical analysis looks at the correlations between the predictive data and the performance data. Where correlations are found, they are considered in relation to each other and assigned weights based on their importance. The result is a scoring model. Each score will reflect the odds of satisfactory repayment. Typically, the higher the score, the lower the credit risk associated with the applicant or account. A better scoring model will do a better job distinguishing between future good and bad accounts, and will be resilient to changes in the applicant population.

The difficulty in introducing credit scoring models for SME loans in new regions is the lack of data on credit history. Where credit bureaus exist, they frequently contain only "negative data" (i.e., reports of delinquency or default) and not positive payment data. However, there are two options for institutions that do not have data (bad SME loans) to develop a custom model. First, individual institutions can develop or commission so-called "expert" or "judgmental" scoring models, which are based on knowledge of predictive factors for similar environments. Second, institutions can pool their data as part of a model development project. This option may pose initial difficulties, as data must be collected on a common basis, but will result in a more powerful and accurate model.

"Help SMEs thrive through SME finace; they play a vital role in economic development."

Stimulating Creative Thinking in Your Business

Ideas and information are vital assets in a company today. And getting your employees to generate creative ideas is becoming an increasingly important strategy for success in business.

Remember that your team's collective knowledge and experience are some of your most valuable resources. Today, one of the most reliable idea-generation techniques is commonly known as "brainstorming", a highly productive way to solve problems, get past hurdles, and stimulate your team.

"Group genius" is more likely when you:

- have a well-defined and clearly-stated problem; it's vital that the team members all share a common goal.
- write down all the ideas as they occur; spontaneity is crucial to encourage creativity.
- ensure that you suspend judgment during the session; every idea is accepted and recorded.
- encourage people to build on the ideas of others; this reinforces teamwork.
- encourage "marginal thinking"; some of the "way-out" ideas can yield the best solutions.